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RUEHUJA/AMEMBASSY ABUJA 9642
RUEHC/DEPT OF LABOR WASHDC
RUFOADA/JAC MOLESWORTH AFB UK
RUEKJCS/SECDEF WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
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UNCLAS LAGOS 000199

SENSITIVE
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DOE FOR GPERSON, CHAYLOCK
DOL FOR SUDHA HALEY

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SUBJECT: NIGERIA: WILL GON RAISE GAS PRICES AS YEAR LONG
MORATORIUM ENDS?

REF: 07 ABUJA 1342

¶1. (SBU) Summary: The year-long agreement between the GON and labor union on gasoline prices comes to an end this month. Unions and the government are already holding informal talks on the future of subsidized gasoline prices. In 2007, the subsidy totaled USD 1.6 billion. While the increasing world price of gasoline is pressuring Nigeria's budget, rising crude oil prices lessens the impact and hence the urgency for the GON to act. End Summary.

¶2. (SBU) The agreement between the GON and labor unions to freeze the retail price of gasoline at 70 naira per liter (USD 0.59 per liter or USD 2.26 per gallon) expires this month. In June 2007, the then newly inaugurated Yar'Adua administration backed down from plans announced under the outgoing Obasanjo administration to increase the retail price of gasoline from 65 to 75 naira per liter (USD 0.55 to USD 0.64). After four days of nationwide protests and strikes, the labor unions agreed to a price of 70 naira per liter with government assurances that it would not seek another price increase for one year. The GON also agreed to form a committee with unions and government representatives to review future price increases (reftel).

¶3. (SBU) One industry contact at a large European downstream petroleum company reports that the GON will meet with labor union representatives at the end of June to discuss a variety oil and gas issues. He believes a possible price increase will be at the top of the agenda, but said his company has not been advised of any official plans. A top trade union official told Econoff that labor unions are already holding informal discussions with the government. He expects a formal announcement on an agreement in late June or early July, but declined to speculate on what would happen to gasoline prices.

¶4. (SBU) Press reports of the end of the agreement have been almost non-existent, with only a brief back and forth between the GON and labor officials in March and April when the Minister of State for Energy (Petroleum) was quoted on the need to "do something" and labor officials responded by saying a price hike was unacceptable. While government, labor union, and oil industry contacts are keeping quiet on the future of the agreement, a general consensus among downstream industry executives and local industry trade papers is that the rising price of refined petroleum is squeezing government coffers. Nigeria continues to import most of its gasoline, despite the resumption of output from the Kaduna and Warri refineries. The 2007 gasoline subsidy totaled USD 1.6 billion. In a February 2008 report,

the Petroleum Products Pricing Regulatory Agency, responsible for implementing the subsidy and running Nigeria's gasoline importation mechanism, estimated that Nigeria would spend another USD 1.6 billion in 2008. Why the GON flatlined projections for gasoline subsidy expenditures is not clear, although it may have been counting on increased output from domestic refineries while underestimating the rise in worldwide gasoline prices.

¶5. (SBU) Comment: The unions, emboldened by a successful strike against ExxonMobil and seeing government coffers filled with revenues from record crude oil prices may feel they have no need to back down from a hard-line stance against a gasoline price increase. Government on the other hand, while wanting to avoid a strike, needs relief from the rising international price of gasoline. The subsidy makes budget planning difficult and diverts substantial funds that could be better used elsewhere. However, Nigeria's gasoline subsidy, when compared to subsidies in countries like Indonesia, Malaysia, and India, is relatively modest. In the end, the most politically expedient solution for the government would be to leave gasoline prices unchanged, taking comfort in the fact that the rising cost of the subsidy, while painful, is partially hedged by higher crude oil prices. End Comment.
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